

State of Alaska FY2008 Governor's Operating Budget

Department of Natural Resources Agriculture Revolving Loan Program Administration Component Budget Summary

Component: Agriculture Revolving Loan Program Administration

Contribution to Department's Mission

Promote and encourage development of an agriculture industry in the state.

Core Services

- The Board of Agriculture and Conservation (BAC) administers the Agricultural Revolving Loan Fund (ARLF) through the Director of Agriculture.
- The ARLF promotes agricultural development through its agricultural loan programs. The ARLF agricultural assets are managed to encourage privatization and promote economically viable development of agricultural industries.
- Fund resources are managed to ensure sustained availability of financing for future agricultural development and expansion in Alaska.
- The ARLF provides various types of loans, including farm development, chattel, operating, irrigation, product processing and land clearing. It also provides financing contracts for the purchase of ARLF disposed assets.
- ARLF Staff process new loan application/modification requests; close loans/modifications; service loans/leases; service account delinquencies, collections, defaults, and facilitate settlements. They provide asset management for real properties, livestock, and equipment; provide inspections and protection of ARLF collateral and respond to requests by the public, legislature and state agencies.
- Service the ARLF \$25.4 million portfolio with a clientele of 106 and 111 accounts.
- Maintain the present low percentage of loan delinquencies.
- Attend agricultural functions and forums with other industry representatives.
- Facilitate BAC meetings for a seven-member board.
- Provide oversight of the Matanuska Maid Creamery operation to protect the interest of Alaska dairy industry.
- Develop plan for privatization of Mt. McKinley Meat and Sausage.

End Results	Strategies to Achieve Results
A: Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry. <u>Target #1:</u> Maintain the loan to equity ratio above 40%. <u>Measure #1:</u> Percentage of the loan to equity ratio.	A1: Make agricultural loans at the direction of the BAC. <u>Target #1:</u> Approve \$1.0 to \$2.0 million dollars in loans annually. <u>Measure #1:</u> Annual loan demand from the ARLF <u>Target #2:</u> Keep delinquencies under 5%. <u>Measure #2:</u> Percentage of delinquency rate A2: Dispose ARLF Assets obtained through foreclosure. <u>Target #1:</u> Follow schedule of ARLF properties to be returned to the private sector. <u>Measure #1:</u> ARLF inventory to be returned to the private sector as scheduled

Major Activities to Advance Strategies

- | | |
|---|---|
| <ul style="list-style-type: none"> • Process new loan applications. • Process loan modification requests. | <ul style="list-style-type: none"> • Recover foreclosed/repossessed collateral. • Facilitate settlements. |
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Major Activities to Advance Strategies

- Inspect and evaluate collateral.
- Close loan/modification requests.
- Service loans, contracts, leases, accounts.
- Manage default accounts.
- Provide protection of ARLF assets.
- Respond to informational requests.
- Provide asset management.
- Dispose of foreclosed/repossessed assets.

FY2008 Resources Allocated to Achieve Results

FY2008 Component Budget: \$2,570,500

Personnel:

Full time	6
Part time	0
Total	6

Performance Measure Detail

A: Result - Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry.

Target #1: Maintain the loan to equity ratio above 40%.

Measure #1: Percentage of the loan to equity ratio.

Loan to Equity Ratio

Year	Loans	Equity	YTD Total
2002	\$7,673.0	\$27,696.0	28%
2003	\$13,009.0	\$28,042.0	46%
2004	\$12,574.0	\$26,540.0	47%
2005	\$11,366.0	\$26,250.0	43%
2006	\$10,294.0	\$25,352.1	41%*

*Through 10-06.

Analysis of results and challenges: Concerns for cash flow will limit the number of loans that can be issued. Lower loan production could be the result of less agricultural land sales and lack of agricultural infrastructures to market products. A lender might consider 40% of their assets being out on loans somewhat high risk; however, the ARLF is unlike a standard bank. Additionally, assets such as Mat Maid and AK Farmers Coop are not available for loan funds.

ARLF Contract financing is not included with the loans in this measure. Most ARLF contracts were refinanced 2003; therefore, ratios prior 2003 are lower and not a true comparable. It appears that there are no more existing ARLF borrowers that wish to refinance their existing ARLF accounts. However, there may be future refinances of other non ARLF loans for agricultural purposes.

A concern for the future of the ARLF is the fact that the ARLF cash is appropriated for non ARLF Division of Agriculture activities, thus threatening the long term solvency of this Fund.

A1: Strategy - Make agricultural loans at the direction of the BAC.

Target #1: Approve \$1.0 to \$2.0 million dollars in loans annually.

Measure #1: Annual loan demand from the ARLF

ARLF Loan Activity

Fiscal	Amount	# loans
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Year		
FY 2000	\$1, 720,316	33
FY 2001	\$2,961,100	36
FY 2002	\$1,637,760	22
FY 2003	\$11,370,586	69
FY 2004	\$2,544,500	19
FY 2005	\$1,014,400	14
FY 2006	\$1,108,500	13

Note: Significant increase in FY03 over previous years is a result of regulation changes allowing refinances of existing loans from 8% to 5%; and a lower rate of interest charged on new loans.

Analysis of results and challenges: There are six loan types:

- Short term (crop)
- Chattel
- Land Clearing
- Irrigation
- Product processing
- Farm Development

Our experience is that roughly half of the annual loan demand is for short term loans.

The increase experienced in FY03 in loan was a one-time occurrence and it did not require a corresponding cash outflow as most of the loans were conversions from Title 28 Agricultural Interest loans to ARLF loans. These loans/contracts are secured by the land.

Target #2: Keep delinquencies under 5%.

Measure #2: Percentage of delinquency rate

Delinquency rate by year

Fiscal Year	Current	Delinquent
FY 2000	85%	15%
FY 2001	86%	14%
FY 2002	93%	7%
FY 2003	98%	2%
FY 2004	97%	3%
FY 2005	96%	4%
FY 2006	96%	4%

Analysis of results and challenges: The delinquency rate has slowly increased in the past couple of years, partly due to the mad cow scare. This made importing of animals difficult. During the last legislative session money was provided for a milk price subsidy to support our dairy farmer and their loans.

A2: Strategy - Dispose ARLF Assets obtained through foreclosure.

Target #1: Follow schedule of ARLF properties to be returned to the private sector.

Measure #1: ARLF inventory to be returned to the private sector as scheduled

ARLF schedule of Property Disposals

Fiscal Year	DESCRIPTION	LOCATION	VALUE	ACTION
FY 2006	Fish Processing Facility	Fairbanks	\$220,000	Sold
FY 2006	Tract 17 Dairy 612 acres	Pt. MacKenzie	\$1,450,000*	Sold
FY 2007	Meat Processing Facility MMM&S	Palmer	\$1,200,000	0
FY 2007	Unimproved Lot 7 acres	Kenai	\$19,500	0
FY 2010	Non-Ag Residential 39 acres	Anchor Point	\$150,000	0
FY 2010	Dairy Farm 102 acres	Delta	\$409,000	0

*This property was offered in FY 06. The sale was not completed and it was re-offered and sold in FY 07 for \$1,450,000.

Analysis of results and challenges: Agricultural land and equipment disposals are averaging 3-6 months to complete from the time the BAC authorizes disposal. This transfers facilities from State ownership to the private sector. Effort towards privatization of ARLF assets continues to be a priority of the Division. Regulatory requirements regarding disposal of infrastructure assets require more time to complete the disposal process. An Ad Hoc committee was formed to make recommendations relating to the future of Mt. McKinley Meat & Sausage.

Key Component Challenges

Matanuska Maid, operating as the Creamery Corporation, provides a critical market for Alaskan dairy producers. The BAC acts as the shareholder. This plant is critical to the survival of 8 dairy farm businesses, 50 plant employees, and all the related industries in the Interior and Southcentral Alaska, with 70 years of operational history in Alaska. In recent years, the operation has generated modest profits that are generally invested in the maintenance of the asset. The challenge here is to bring the processor and the producers together in a cooperative business plan that will attract funding for a more efficient and modern bottling plant. The ultimate goal is for all components of the dairy industry to be privately owned and operated. Recent losses have resulted from competing with big box stores, new 9/11 security requirements, and building obsolescence. If this continues additional funding will be required.

ARLF provides an operating subsidy for program-wide Division of Agriculture expenditures. This results in an ongoing erosion of ARLF funds and jeopardizes the solvency of the fund. Management is making efforts to minimize the draw on the fund. Conventional financing is not generally available to agriculture in Alaska. The BAC through the ARLF continues to provide low interest rate loans for agricultural development. The federal loan program has been modified and fewer loans are being processed, resulting in an increased reliance on the ARLF. If we do nothing and continue to operate as we do currently, ARLF will be depleted in approximately two years. Our goal is sustainability.

Over a period of years the ARLF has had a reduction in staff. If the ARLF is to meet its statutory obligations to promote the development of agriculture in Alaska, it needs to be built up into an efficient full service unit and market and expand its program, in addition to actively manage its assets and develop necessary regulatory changes. Expansion of the ARLF program may include actively promoting shell fish farming loans. Shell fish farming is a young agricultural industry in Alaska that is in need of lending services for further development. Further discussion between the staff and the BAC and regulations are required to implement program expansion.

The BAC may consider a participating agreement with another agency, such as Alaska Housing Finance Corporation, for residential farm loans. Facilitating the means for residential financing on agricultural land would be a positive accomplishment. It would increase the value of the ARLF loan collateral, and by providing housing, it would encourage continued agricultural development. This program would use AHFC funds; instead of the ARLF's, for the loans, in addition to increase ARLF revenues with servicing fees. Further discussions between AHFC and the ARLF are needed in order to submit a proposal to DNR and BAC for consideration. Applicable regulations would be required.

Mt. McKinley Meat & Sausage (MMM&S) operation has been preserved by the state at significant expense since 1985.

Operation losses continue even with recent cost saving measures implemented. The aging facility requires significant investment to continue operations; however, state livestock production continues to decline. Attempts to transfer ownership of the plant to the private sector with incentives to maintain the slaughter facility have failed. Selling the property unconditionally at market value will provide the ARLF with some degree of recovery; however, the closing of the kill floor will have a short term negative impact on Alaska farmers and ranchers. We expect that more appropriately sized privately owned plants, possibly associated with feed lots, will spring up in Southcentral and Kenai Peninsula areas as has happened in the Delta and Fairbanks area. These new facilities would have the potential to develop markets which the state owned facility can not do. In the next 12 months this division will actively work on plans for this significant asset. People depending on this facility will be challenged to find alternatives but fair notice is given.

Significant Changes in Results to be Delivered in FY2008

We will maintain two Loan/Collection Officer positions to properly address all ARLF services. These positions are responsible for servicing of both ARLF loan and asset portfolio. Additionally, these positions assist with major infrastructure asset projects such as Matanuska Maid and Alaska Farmers Cooperative.

Major Component Accomplishments in 2006

The ARLF program celebrated 53 years of operation in August. This solid program has promoted industry growth through competitive interest-rate loans to borrowers with viable business plans and contributed to industry stability by providing continued financing for existing agricultural enterprises.

Matanuska Maid, the oldest and most successful multi-product dairy manufacturer in Alaska, celebrated 70 years of continuous operation this year. Matanuska Maid continues to purchase all available local milk that meets its quality standards. Bottled milk represents about 70% of Matanuska Maid's total sales.

The delinquency rate of the \$13.0 million ARLF loan portfolio continues to be less than 4%.

We offered a 620 acre dairy facility for sale through a public outcry auction, resulting in a return to the state of \$1,450,000.

A December 2006 Mt. McKinley Meat Plant disposal plan was developed. A request for proposal resulted in one offer. The BAC determined that the offer was not responsive and asked that a new plan be developed. The plant continues to be operated by the Division of Agriculture. The annual ARLF subsidy for the plant was reduced from more than \$300,000 to \$195,000 through efficiency measures, although costs have risen from FY06.

An Ad Hoc committee was formed to prepare a transition report addressing critical issues facing the dairy industry, dairy farmers, creameries and the dairy support industry, including hay, grain and slaughter.

Working with the legislature, we were successful in receiving approval to re-appropriate \$500,000 in federal restricted revenues to support the Dairy Industry and hopefully avoid further delinquencies on our ARLF dairy loans. Statewide producers are being paid \$2.00 a hundred weight for grade A milk from this appropriation based on their production. This funding will be depleted by mid year FY07.

As a result of continued \$600,000 Division of Agriculture general fund appropriation, the expenditure draw from the ARLF for non-ARLF purposes was reduced from \$1,463,875 in FY04 to \$857,000 FY07, this is helping to keep the ARLF solvent longer.

Statutory and Regulatory Authority

AS 03.09, AS 03.10

Contact Information

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Agriculture Revolving Loan Program Administration Component Financial Summary

All dollars shown in thousands

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	346.6	466.4	528.6
72000 Travel	25.9	32.4	32.4
73000 Services	401.9	444.6	444.6
74000 Commodities	1,099.0	1,564.9	1,564.9
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	1,873.4	2,508.3	2,570.5
Funding Sources:			
1021 Agricultural Loan Fund	1,873.4	2,508.3	2,570.5
Funding Totals	1,873.4	2,508.3	2,570.5

**Summary of Component Budget Changes
From FY2007 Management Plan to FY2008 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2007 Management Plan	0.0	0.0	2,508.3	2,508.3
Proposed budget increases:				
-FY 08 Retirement Systems Rate Increases	0.0	0.0	62.2	62.2
FY2008 Governor	0.0	0.0	2,570.5	2,570.5

**Agriculture Revolving Loan Program Administration
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2007</u> <u>Management</u> <u>Plan</u>	<u>FY2008</u> <u>Governor</u>		
Full-time	6	6	Annual Salaries	297,563
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	238,358
			<i>Less 1.37% Vacancy Factor</i>	(7,321)
			Lump Sum Premium Pay	0
Totals	6	6	Total Personal Services	528,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk II	0	0	0	1	1
Corr Indus Prod Mgr I	0	0	0	2	2
Corr Indus Prod Mgr II	0	0	0	1	1
Loan/Collection Off I	0	0	0	2	2
Totals	0	0	0	6	6